

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2015

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

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Independent Auditor's Report

**Board of Directors
American Friends of the Open
University of Israel, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of the Open University of Israel, Inc., which comprise the balance sheet as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Friends of the Open University of Israel, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited American Friends of the Open University of Israel, Inc.'s December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

April 19, 2016

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

BALANCE SHEET

DECEMBER 31, 2015

(With Summarized Financial Information for December 31, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 551,564	\$ 795,678
Contributions receivable - net (Note 3)	449,155	644,394
Prepaid expenses	27,465	22,309
Security deposit (Note 6)	13,000	13,000
Prepaid rent (Note 6)		1,192
Fixed assets - net (Note 4)		176
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,041,184</u>	<u>\$ 1,476,749</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 20,320	\$ 27,376
Deferred rent (Note 6)	1,095	
	<u> </u>	<u> </u>
Total liabilities	<u>21,415</u>	<u>27,376</u>
Net assets (Exhibit B)		
Unrestricted	475,594	691,273
Temporarily restricted (Note 5)	394,175	608,100
Permanently restricted (Note 5)	150,000	150,000
	<u> </u>	<u> </u>
Total net assets	<u>1,019,769</u>	<u>1,449,373</u>
Total liabilities and net assets	<u>\$ 1,041,184</u>	<u>\$ 1,476,749</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information
for the Year Ended December 31, 2014)

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains and other support					
Contributions and special events (includes in-kind contributions of \$42,188 in 2015)	\$ 1,087,458				
Less direct cost of special events	<u>(129,884)</u>	\$ 769,761	\$ 187,813	\$ 957,574	\$ 842,520
Investment income		623	162	785	6,791
Net assets released from restrictions (Note 5)		<u>401,900</u>	<u>(401,900)</u>		
Total revenues, gains and other support		<u>1,172,284</u>	<u>(213,925)</u>	<u>958,359</u>	<u>849,311</u>
Expenses (Exhibit C)					
Program - grants		987,522		987,522	1,160,560
Management and general		227,732		227,732	162,302
Fund raising		<u>172,709</u>		<u>172,709</u>	<u>120,113</u>
Total expenses		<u>1,387,963</u>		<u>1,387,963</u>	<u>1,442,975</u>
Change in net assets (Exhibit D)		(215,679)	(213,925)	(429,604)	(593,664)
Net assets - beginning of year		<u>691,273</u>	<u>608,100</u>	<u>1,449,373</u>	<u>2,043,037</u>
Net assets - end of year (Exhibit A)	\$	<u><u>475,594</u></u>	<u><u>394,175</u></u>	<u><u>1,019,769</u></u>	<u><u>1,449,373</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information
for the Year Ended December 31, 2014)

	Program - Grants	Management and General	Fund Raising	Special Events	Total	
					2015	2014
Grants	\$ 987,522				\$ 987,522	\$ 1,160,560
Salaries, benefits and taxes		\$ 104,196	\$ 56,106		160,302	130,661
Professional fees		31,179	58,734		89,913	31,854
Office and computer expenses		5,131	2,763		7,894	7,108
Telephone		2,354	1,268		3,622	3,551
Postage and mailing		314	943		1,257	1,750
Occupancy (Note 6)		44,543	23,985		68,528	66,705
Printing, photos and videos			4,141	\$ 14,320	18,461	13,768
Insurance		3,401	1,831		5,232	5,734
Advertising			1,927		1,927	2,261
Catering, venue and entertainment			20,949	115,564	136,513	129,782
Depreciation		114	62		176	367
Bad debt		36,500			36,500	10,000
Investment fees						632
Total expenses	987,522	227,732	172,709	129,884	1,517,847	1,564,733
Less expenses deducted directly from revenues on the statement of activities						
Direct cost of special events				(129,884)	(129,884)	(121,126)
Investment fees						(632)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 987,522	\$ 227,732	\$ 172,709	\$ -	\$ 1,387,963	\$ 1,442,975

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.****STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2015**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ (429,604)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	176
Decrease (increase) in assets	
Contributions receivable	195,239
Prepaid expenses	(5,156)
Prepaid rent	1,192
Increase (decrease) in liabilities	
Accounts payable	(7,056)
Deferred rent	1,095
	<hr/>
Net cash used by operating activities	(244,114)
	<hr/>
Net change in cash	(244,114)
Cash - beginning of year	<hr/> 795,678
Cash - end of year	\$ <hr/> <hr/> 551,564

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1 - NATURE OF ORGANIZATION

American Friends of the Open University of Israel, Inc. (AFOUI) was incorporated as a not-for-profit corporation in New York on June 2, 1981 to build awareness of the Open University of Israel (OUI) in the United States and raise funds in order to provide grants to OUI to support the students, faculty, and growth initiatives of OUI. The organization's primary sources of revenues are contributions and special events.

OUI, a pioneer and cutting-edge leader in distance learning, is dedicated to educating all those who would otherwise be denied a university education and to perpetuating the academic and intellectual traditions of the Jewish people. With approximately 47,000 students, OUI is one of Israel's largest universities.

The Internal Revenue Service has determined that the organization is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions receivable and allowance for doubtful accounts - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their fair value, which is measured at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. AFOUI determines whether an allowance for uncollectibles should be provided. Such estimates are based upon management's assessment of the aging of its receivables, current economic conditions, subsequent receipts and historical information.

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Items with a cost of \$500 and an estimated useful life of greater than one year are capitalized.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those funds whose use has been limited by donors to a specific time period or purpose.

Permanently restricted net assets - Permanently restricted net assets are those funds whose principal may not be expended.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind contributions - In-kind contributions are items that are donated to AFOUI for special events and are reported at fair value at the date the contribution is received.

Operating leases - Operating leases are straight-lined over the term of the lease. Prepaid or deferred rent is recorded when there are material differences between the fixed payment and the rent expense.

Advertising - Advertising fees are expensed as incurred.

Allocation of functional expenses - The costs of providing services have been reported on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient disclosures or detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AFOUI's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Grants - Grants to OUI are made pursuant to authorization of the Board of Directors of AFOUI.

Uncertainty in income taxes - AFOUI has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2012 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through April 19, 2016, which is the date the financial statements were available to be issued.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Those receivables that are due in more than one year have been discounted to fair present value using a discount rate of 3%. The receivables are due as follows:

2015 and prior	\$ 137,980
2016	200,000
2017	<u>200,000</u>
	537,980
Less discount to present value	(5,825)
Less allowance for uncollectibles	<u>(83,000)</u>
Net contributions receivable	<u>\$ 449,155</u>

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Furniture and equipment	\$ 29,722	5 years
Accumulated depreciation	<u>(29,722)</u>	
	<u>\$ -</u>	

NOTE 5 - RESTRICTED NET ASSETS

Permanently Restricted

General

AFOUI's permanently restricted net assets consist of one endowment fund assets to be held in perpetuity. The income from the assets can be used for scholarships. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of AFOUI has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. AFOUI is now governed by the NYPMIFA spending policy, which establishes a standard prudent maximum spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, AFOUI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by AFOUI in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 5 - RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objective of AFOUI is to maintain the principal endowment funds at the original amount designated by the donor and to generate investment income for the specified purpose. The investment policy to achieve this objective is to invest in low-risk securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

AFOUI does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

Investments to be held in perpetuity total \$150,000. The income is expendable to support scholarships at OUI.

Changes in Endowment Net Assets for the Year Ended December 31, 2015

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year		\$ 150,000
Interest income	\$ 162	
Appropriation of endowment assets for expenditure	<u>(162)</u>	<u> </u>
Endowment net assets, end of year	\$ <u> -</u>	\$ <u>150,000</u>

The policy of the governing board is to appropriate all investment income, thereby not increasing its historical dollar value.

Temporarily restricted net assets are available for the following:

General scholarships	\$ <u>394,175</u>
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Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

General scholarships	\$ <u>401,900</u>
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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 6 - LEASE COMMITMENTS

AFOUI has a lease for office space through December 31, 2017. In connection with this lease AFOUI has a security deposit of \$13,000.

The organization's future noncancelable minimum rental commitments as of December 31, 2015 are as follows:

2016	\$	64,252
2017		<u>66,180</u>
	\$	<u><u>130,432</u></u>

Rent expense for the year ended December 31, 2015 was \$64,668. As of December 31, 2015, deferred rent was \$1,095.

NOTE 7 - CONCENTRATION

Financial instruments which potentially subject AFOUI to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.